MARKETING FUNCTIONS AND MERCANTILE ORGANIZATION

The services that must be performed in getting commodities from producer to consumer are usually called the "functions of middlemen"; in the title of this paper they are referred to as "marketing functions" because they are not always performed by middlemen, but often to a greater or less extent by the producers themselves. When a manufacturer performs practically all of them, as, for example, when he sells through his own retail stores, it might be said that he is his own middleman; but the term "middleman" commonly means an independent merchant, rather than a part of the manufacturer's selling organization. It is therefore helpful to think of "marketing functions," rather than "the functions of middlemen" because these functions are not necessarily performed by what we ordinarily term middlemen. It should also be noted that the final consumer generally performs part of the marketing functions.

One reason why many people believe that the cost of marketing might be reduced by the "elimination of middlemen" is their failure to realize that this does not mean the elimination of marketing functions—which still have to be performed. Furthermore, many who do realize that there are functions to be performed, do not appreciate their complexity, or the difficulty and expense involved in performing them. Therefore, a classification of marketing functions is absolutely fundamental to a study of and an understanding of the marketing machinery. Although these functions have been described to a certain extent by other writers,[1] it seems worth while not only to reach as fundamental and significant a classification as possible, but to describe them in a way that will couple them up with the actual organization of the marketing process. Such is the object of this paper.

The services performed in the marketing process, including practically every item in the detailed expense account of a merchant or of the selling organization of a manufacturer, can be classified under one of the following heads: (1) assembling; (2) storing; (3) assumption of risks; (4) financing; (5) rearrange-

[1] The writer wishes especially to acknowledge the help derived from A. W. Shaw's *Some Problems in Market Distribution*. The reader will recognize frequent indebtedness to this source.

ment; (6) selling; and (7) transportation. The only important exception to this classification is the expense connected with accounting and office management, or what Shaw calls "the facilitating activities" of a business. But these are purely incidental to the primary functions enumerated above, and may properly be considered as assignable to, or incurred in connection with, their performance.

I. Assembling.

When communities were self-sufficing, there was no need of collecting or gathering commodities from distant places. But with the development of territorial specialization both in agriculture and manufacturing, the assembling of commodities from various places became a more or less difficult function to perform. The term "assembling," as used here, does not mean the actual physical transportation of commodities from one place to another, but rather the seeking out of sources, the making of business connections whereby commodities may be bought, and the study of market conditions so that they may be bought at the lowest price possible.

Assembling therefore involves all the services connected with *buying*. Many wholesale houses assemble goods from different parts of the country—even from all corners of the earth. They have their specialized buyers, who not only go to trade and manufacturing centers to buy goods, but who have to make a constant and continuous study of market conditions, sources of products, qualities, grades, styles, etc. Many large houses maintain permanent buying offices in market centers, as, for example, the dry-goods wholesalers of Chicago, who maintain buying offices in New York. It is a common practice for wholesalers and even large retailers to send buyers abroad, and some, as Marshall Field and Company, even maintain permanent buying offices in several foreign cities. But the assembling from foreign countries is largely performed by a specialized group of merchants known as importers.

Sometimes the buying function is so difficult and expensive to perform that jobbers employ independent purchasing agents in distant markets, who buy in larger lots than individual jobbers can handle, who have a more expert knowledge of market conditions and prices, and who keep their clients informed from week to week on these matters. This is common in the hardware trade.

Department stores do not rely on jobbers to assemble goods for them. They buy largely from manufacturers, which involves sending buyers to eastern markets; and some of the largest stores, especially in the East, maintain permanent buying headquarters in New York. But the majority of department stores cannot afford such expensive buying organizations, and although they send their buyers to New York, they employ either "resident buyers" or their own coöperative buying syndicates to keep them in touch with market conditions, tell them where they can buy to best advantage, execute "fill-in" orders, and to provide desk space for their buyers when they are visiting New York.

Not many years ago, it was the practice of country merchants to visit large cities perhaps twice a year to order a sufficient supply of goods for the season. This was a cumbersome and costly method of assembling; it involved loss of time, poor selection of goods, purchasing too large a stock at a time, and unsatisfactory credit conditions. The assembling function for country merchants is now taken over very largely by jobbers.

Many other examples might be given of the importance and difficulties connected with assembling. It is one of the principal functions of wholesale produce dealers and commission merchants, who send solicitors into the producing regions to make business connections, who assemble first from one part of the country and then from another as crops mature in different climates, and who make a continuous study of crop and weather conditions. Brokers often help in the assembling function, in connection with both agricultural and manufactured products, although they more commonly represent the seller than the buyer.

II. Storing.

Storing, in its broad sense, means the holding of stocks of goods at convenient points. It involves expense for warehouse or storage fees, store space, and interest on capital employed. Producers have to perform the storage function to a certain extent, but they shift it as much as possible to middlemen. Manufacturers prefer to manufacture "on order," so that they may deliver the finished goods as fast as they are turned out; but many have to manufacture "for stock," thereby keeping capital tied up in finished goods on hand. When manufacturers sell direct to retail stores, or to consumers through their own retail stores, they have to keep a large stock of finished goods on hand, not only at factory, but often at

convenient places throughout the country, thus assuming the expense of performing the storing function, instead of shifting it to middlemen.

Retailers perform this function by keeping the shelves of their stores filled with goods. The tendency is for middlemen to reduce it as much as possible by purchasing goods in small quantities and very frequently; because small stock in proportion to sales means faster turnover and larger net profits. This tendency is especially noticeable among retailers, who shift the storing expense as much as possible to jobbers. Jobbers in turn always have warehouses with complete stocks, and the fact that retailers are buying in smaller and smaller quantities, but more frequently, accounts largely for the development of small jobbing centers, as in the grocery trade, and for the establishment of branch houses by large jobbers, as in the hardware trade. In other words, the jobber needs to be as near the retailer as possible, so as to supply his wants with a minimum of delay. The jobber also desires to order from the manufacturer as little as possible at a time, and this has the tendency of forcing manufacturers to carry a stock of finished goods. About the only middlemen who perform practically no storage function are brokers, manufacturers' agents, and purchasing agents.

The storing function is so difficult and expensive to perform in some cases that it is taken over by a specializing set of warehousemen. General warehouses are found in all large cities, and in them all conceivable commodities are held. A sugar refiner on the Atlantic Coast, for example, needs to keep supplies of sugar on hand at large distributing centers throughout the country, and he has the choice of building and maintaining his own warehouses or renting space in public warehouses. He finds it cheaper to pursue the latter course. The large meat-packers, on the other hand, find it to their advantage to maintain their own warehouses, partly because they require a specialized service and equipment not furnished by ordinary warehouses, and partly because they do business in large volume. Agricultural products, which are seasonal in character, demand special forms of storage facilities, usually furnished by independent warehousemen. Cases in point are grain elevators, cotton warehouses, and tobacco warehouses. And when the element of preservation enters in, cold storage houses are required. The storage function has to be performed all along the line, from producer to consumer. Even the consumer, when he

buys goods in large quantities, performs part of the marketing function of storage; but the tendency has been for the consumer to shift this function back more and more to middlemen.

III. The assumption of risks.

Inasmuch as commission merchants, brokers, and agents do not take title to goods, they assume very few of the merchandising risks; but practically every other middleman, as well as the manufacturer, especially when he produces for stock, has to consider the element of risk. The principal kinds of merchandising risks may be enumerated as follows: (1) price fluctuation, (2) destruction by fire, (3) deterioration in quality, (4) style changes, and (5) financial risks.

Perhaps the most important risk is that of price fluctuation; but its importance varies for different commodities. Branded and advertised articles are relatively stable in price, though during war times they too suffer somewhat from price changes. The risk of price fluctuation is greater to wholesalers than to retailers because of the smaller margins on which the former carry on business. Many articles handled by wholesale grocers, such as flour and sugar, fluctuate in price very frequently and are handled on extremely small margins, and the merchandising risk accordingly becomes great. When one buys or sells with the idea of making a profit from mere price fluctuations, he becomes a speculator. In this sense wholesale grocers often speculate in flour and sugar and some other commodities, and oftentimes a large part of their net profits (or losses) is due to this feature of their activities. In the case of a few raw products—wheat, corn, oats, flaxseed, cotton, sugar, and coffee—price changes are frequent, merchandising risks are great, and speculation becomes an important factor. Much of the merchandising risk is shifted through the hedging process to professional speculators, a specialized class of risk-assumers.

The risk of destruction by fire is largely shifted to insurance companies. Deterioration in quality is a danger affecting principally perishable articles, but to some extent is also a risk factor for general merchandise, which may become shopworn. Many articles need special facilities for their handling—warm rooms, dry rooms, refrigerated rooms, etc.; and the storage houses, as well as the railroads, help in the prevention of deterioration. Style changes in manufactured goods are analogous to perish-

ability of farm products. They constitute an important risk factor in men's and women's wear, especially the latter; and the frequency of style changes appears to be increasing, as exemplified recently in eye glasses and women's footwear. Financial risk appears in loss from uncollectible accounts, but may be largely overcome by the maintenance of credit departments. Financial risk is also involved in the other forms of financing described below.

IV. Financing.

As explained by Shaw, middlemen were formerly merchandise bankers. This function has been largely taken over by banks, which in this sense are middlemen of a specialized kind. And yet we should not lose sight of the fact that middlemen still perform extremely important financing functions, and in a variety of ways. Perhaps the most important is the granting of credit—retailers to consumers, jobbers to retailers, and sometimes manufacturers to jobbers. In many cases, however, the manufacturer has to be financed: as in the cotton trade, where commission houses make advances or endorse the mill's paper; or in the silk trade, where raw silk dealers furnish the raw material on six-months' time. Furthermore, manufacturers are commonly financed by being allowed to draw drafts on day of shipment, a method also common in financing shippers of farm products.

The financing function involves the tying up of capital, with resulting interest charges, also a line of credit with banks and the expenses connected with accounts and collections. On the whole, the brunt of the financing burden is borne by the wholesale trades, or sometimes by commission merchants. Retailers and consumers are generally weak so far as accumulation of capital is concerned, and on the other end of the marketing chain, manufacturers generally find it difficult to finance their own undertakings; so that the financing function of the wholesale intermediaries commonly extends in both directions. This is especially true in the marketing of farm products. Furthermore, the wholesalers, because they are located in trade centers and have quick assets, are the ones who are in the best position to obtain credit from banks.

V. Rearrangement.

Rearrangement of commodities involves sorting, grading, breaking up large quantities into small units, packing, etc. This is one of the principal functions performed by many merchants in

raw materials. Wool dealers, for example, in addition to their assembling and financing functions, are practically indispensable to manufacturers on account of the fact that they are important as graders and classifiers, and stand ready to furnish the particular quality of wool desired at any time. In the farm-products trade, sorting and grading are of supreme importance; furthermore, these commodities reach large cities in carloads, and have to be split up into small quantities, according to the demands of individual retailers. This function is important even in the marketing of standardized and non-perishable commodities; wholesalers often receive goods in bulk, and have to weigh them out and package them. Goods that are already packaged when they reach wholesalers are usually put up in cases or cartons, but owing to the tendency among retailers to buy in smaller quantities, cases have to be broken open, goods in one third or one sixth of a dozen lots collected from the different cases, and repacked for shipment. This is becoming a serious problem in the drug trade, for example, where each retailer has to handle such a large variety of proprietary medicines. A wholesale grocer recently told the writer that his "broken-package room," was "the most expensive room in the building." Some wholesalers charge their retail customers higher prices for broken-package or broken-case lots. Even retailers have the function of rearrangement to perform to a certain extent. They have to weigh out sugar, coffee, nails, wire, etc., and measure and cut cloth; then they have to wrap for presentation to customers. Thus it is seen that breaking up large quantities into smaller units, sorting out according to quality, and packing and wrapping are functions that have to be performed by middlemen all along the line.

VI. Selling.

Selling is the most important of the marketing functions, as well as the most costly one to perform. Salaries of salesmen (plus traveling expenses in many cases) constitute generally the most important single item in a merchant's expense account. Selling involves both creating a demand for the goods and getting the goods into the hands of the purchaser. Though both of these phases of selling are performed largely by personal salesmen, demand creation is being accomplished more and more by means of advertising. Advertising is used either because it is the only possible way of creating a large consumer demand, or because it is

the cheapest way of arousing such a demand. When a manufacturer advertises, he turns over the actual work of preparing copy, selecting mediums, etc., to another functional specialist—the advertising agency.

It is still necessary for most manufacturers, jobbers, and retailers to employ personal salesmen, but because of the great expense attached to this method, it is only natural that many of the important recent attempts to reduce merchandising costs should have been along the line of eliminating salesmen's salaries as much as possible. The mail-order houses, both wholesale and retail, do away with salesmen altogether; local buying syndicates among retail druggists effect their principal saving by substituting the telephone for salesmen; the slot-machine does away with salesmen, and the slot-machine type of retail store, like the Horn and Hardart restaurants and the "all-package" grocery stores, seems to be gaining ground.

The employment of salesmen involves the maintenance of a sales organization (sometimes an extensive one), the determination of the best way to pay salesmen, their selection and training, the control of their traveling expenses, the use of samples, etc., all of which means expense to the manufacturer or middleman performing the selling function.

VII. Transportation.

As explained by Shaw, merchandise middlemen formerly attended to the actual carriage of goods from one place to another more than they do now; but this function has been largely taken over by railroads and other transportation agencies that are specialized middlemen in this field. Transportation, however, is still an important function of merchants. Wholesalers and retailers frequently use their own trucks for hauling goods from freight stations to their stores, though more commonly drayage companies are employed.

The principal transportation function still performed by merchandise middlemen is that of delivering goods from store to customer. Delivery expenses form a considerable item for most jobbers and retailers, as well as for manufacturers who sell direct to the retail trade. For such middlemen as milk distributors, the delivery function becomes an exceedingly expensive one to perform. Some department stores and grocery stores carry their delivery services to an almost absurd degree—a situation brought

about by the unreasonable demands of shoppers and by keen competition among the stores for business.

There appears to be a tendency in some directions to curtail delivery expense by asking customers to take goods home with them, by making only a certain number of deliveries per day, or even per week, and by giving a special discount to customers who carry goods home. Many stores save by making no deliveries at all. The carriage of goods from store to consumer's residence has to be performed, and it is simply a question whether the consumer is willing to perform this function, or pay to have it performed for him. The five-and-ten-cent stores deliver only purchases exceeding a certain minimum value. In some cases retail stores located in the same city turn over the delivery function to specialized delivery companies, or even have their own coöperative delivery companies, thus eliminating wastes due to duplication of equipment, and to covering and re-covering of the same territory.

As already stated, a clear conception of the marketing functions is fundamental to a proper understanding of the mercantile structure. The splitting up of the marketing process among successive middlemen is merely a case of specialization in marketing functions. The organization of any trade is characterized by the extent to which the functions are divided among several middlemen or are "integrated" in the hands of few middlemen or in the hands of the producer himself, just as any industry is characterized by the extent to which the "manufacturing functions" are specialized among several independent plants, or are integrated or consolidated in one plant or under one ownership. The tendency in modern merchandising appears to be for the manufacturer to assume more and more of the marketing functions, and the problem of how far he should go in this matter is one that is bothering many a manufacturer today. In some cases, the manufacturer performs practically none of the marketing functions; he employs a commission merchant (as in the textile trade), a "manufacturer's agent" (as in the hardware trade), or a broker (as in the sugar trade). He then needs no sales organization, not even for reaching jobbers. The agency that he employs becomes the equivalent of the manufacturer's selling organization; and when a manufacturer uses this method it is for the simple reason that such an agency can perform the marketing functions more cheaply than he himself can perform them, which is especially true

of small manufacturers who make a single product or small variety of products. The selling agent effects his principal economies by handling the outputs of several mills, and thereby reducing the selling cost per unit of goods sold.

Most manufacturers employ no intermediary in reaching jobbers, but go to them direct. This requires the manufacturer to maintain a sales organization, to employ salesmen, to assume merchandising risks, etc. In the textile trades, the American Woolen Company and some of the largest cotton mills "sell direct," which means that they sell direct to jobbers and the "cutting-up trade," rather than direct to retailers. Selling direct to jobbers usually requires relatively few salesmen, for goods are sold in large units, and the manufacturer has relatively few customers, all of whom are "good pay." It enables the manufacturer to manufacture largely "on order" rather than "for stock," hence reducing the storage function.

Other manufacturers assume still more of the marketing functions and "do their own jobbing," thereby selling direct to the retail trade. Such an undertaking demands an extensive and expensive selling organization, a very large number of salesmen (to perform the selling function), frequently the establishment of branch offices dealing with and giving credit to thousands of retailers who are "slow pay" (financing and risk functions), the manufacture of goods for stock (storage function), and sometimes the delivery of goods to retailers (as is done by the National Biscuit Company). Well may a manufacturer hesitate before he undertakes to develop the organization and assume the expense of performing these functions. Many a manufacturer has thought it over, and decided that the jobber can do these things for him more cheaply than he can do them himself.

Although the writer has no intention of discussing in this place the reasons for the tendency of manufacturers in some lines to assume these marketing functions, it should perhaps be noted that other considerations than mere cheapness or economy in marketing are often the controlling motives—such as better pushing of advertised goods, control of resale prices, etc. In fact, it is a question whether goods marketed direct to retailers by manufacturers are done so any more *cheaply* than if they were sent through the hands of jobbers; probably the contrary is true in many instances. At least, when goods are marketed in this

way, they usually do not reach retailers at any lower price than when they go through jobbers—except in the case of very large retailers who buy in "jobbing quantities."

It is needless to carry this analysis further and to show how the manufacturer assumes even more of the marketing functions when he sells to consumers through his own retail stores. What has already been said is perhaps rather obvious, but it illustrates the value of thinking of these questions of commercial organization in terms of the marketing functions. It may not be amiss to call attention to the fact that while the manufacturer has tended to assume more of these functions, the consumer, on the other hand, has tended to perform fewer of them. He (or rather she) goes to market for foodstuffs less frequently and dislikes to carry goods home with her. Furthermore, she either dislikes or is unable to perform the storing function, and hence buys supplies from day to day. When she goes shopping for clothing and household goods she is performing the "assembling" function, but the department store has helped her out in this particular by "assembling" all manner of goods under one roof.

As the writer began his studies of marketing in the field of agricultural products and has since extended his investigations to include manufactured products, he has been particularly interested in comparing the methods of marketing these two general classes of products. There are many noticeable differences, including the following: There is a greater diversity of methods in the marketing of manufactured products; exchanges play a more important part in the farm products trade; farm products are more commonly sold at auction than manufactured goods; and the wholesale trade in manufactured goods is concentrated in fewer houses, which do a greater average volume of business and which cover wider territories.

But the most interesting difference lies in the fact that there is greater functional specialization in marketing farm products than in marketing manufactured products: in other words, that farm products pass through the hands of a greater number of successive middlemen. Furthermore, there is a distinct tendency in the selling of manufactured products toward the "elimination of middlemen," or rather toward the taking over of the marketing functions by producers—a tendency that is not apparent in the handling of farm products. In the farm products trade, for example, there is usu-

ally a country shipper—a middleman that has no counterpart in the manufactured goods trade. Also the wholesale distribution of farm products is commonly divided between two agents—the wholesale receiver or commission merchant, who assembles large quantities from various and far-away localities; and the jobber, who sells in small quantities to hundreds of retailers. In the wholesale trade in manufactured products there is no such important division between two functional specialists, although the commission house, manufacturer's agent, and broker, described above, sometimes appear between manufacturer and wholesaler.

What are the reasons for the greater functional specialization in marketing farm products? In answering this question one is helped by referring again to the marketing functions. In general, it may be said that these functions are harder to perform in the case of farm products, and the more difficult they are to perform, the greater need of specialization. The risk in farm products is greater because they are perishable and because their prices are more fluctuating; they are produced seasonally, and hence the storage function becomes more important; they are not so well standardized, and hence the sorting, grading, and packing (or rearrangement function) is more difficult to perform; the producing unit (the individual farm) is much smaller than for manufactured products, which means that the assembling function has to be performed by a country shipper, or sometimes by a coöperative shipping association. The fact that farm products mature first in one section of the country and then in another, also complicates the assembling function for wholesale dealers. Farm products are sold through a larger number of retail outlets than are most manufactured goods, and hence the selling function is more difficult. Without going into detail, the division of the wholesale trade between two successive middlemen can be explained only in terms of functions performed; in this case it will be found that the wholesale receiver or commission merchant specializes in the assembling, storing, and financing functions, and that the jobber specializes in sorting, selling, and delivery. The risk function is divided between the two, except in the case of commission merchants, who do not take title to the goods, and who shift the risks largely to country shippers.

In closing, it may be mentioned that one other feature of this classification of marketing functions is its value to the scientific student of marketing subjects in performing his research work or

trade investigations. With these functions in mind, he can approach practically any kind of dealer or trader and ask a fairly intelligent and comprehensive set of questions without knowing much of anything about the trade. For example, suppose one wishes to study flour brokers. Begin with the assembling function, and ask: For what class of mills do you sell flour? Where are they located? For how many mills do you sell? Under what arrangement do you handle flour for your principals? etc. Then take up the storage function, and ask: Do you keep flour on hand for your principals? If so, is it kept in a public warehouse? Who pays storage fees? Why and how long is it kept on hand? etc. By going through the list in this way, and by having a certain amount of merchandising knowledge which makes one answer suggest another question, an investigator can find out practically everything he needs to know of the functions of any class of traders.

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